C O P Y

THE ANACONDA COMPANY
New Mexico Operations
P. O. Box 639, Grants, New Mexico

January 2, 1958

RECEIVED
JAN - [illegible]
U. S. Geological Survey
Carlsbad, N. M.

Mr. G. Warren Spaulding
General Superintendent
Navajo Indian Agency
Window Rock, Arizona

Dear Sir:

[illegible]

As an outgrowth of the competitive bidding of last fall and subsequent negotiations with individual Indian owners, The Anaconda Company has taken uranium mining leases on 15 allotments of one-quarter section (approximately 160 acres) each in McKinley County, New Mexico, being your Lease Numbers 14-20-603-3584 to 14-20-603-3598, inclusive. We have paid the bonuses in full ($31,420.65), filing fees of $75.00, first-year rentals (at $1.00 per acre) totalling $2,412.13 and have posted the required bond of $15,000.00. It is my understanding that lease documents executed by the lessors and by Anaconda will be filed with your office by the due date of January 6, 1958, together with all other required documents of a supplementary or supporting character, and that the agreements will take effect and the terms of leases start to run on the date or dates when these leases ar any of them are formally approved by the Indian Service.

Certain problems have arisen in the uranium mining industry which will necessarily bear heavily upon the determination of our policy respecting the methods and rate of conducting exploration work on these 15 leases, and which we believe warrant modification of some of the terms - for the leases considered as a group - along lines that should enhance the likelihood of ultimate royalty income to the Indian owners and, at the same time, enable us to accomplish a sound and adequate exploration job in a systematic and economical manner.

You are doubtless aware of the situation that has developed respecting markets for uranium ore, whereby existing and planned milling capacity in New Mexico is, in general, fully committed to the treatment of presently developed ore supplies until sometime in 1962, and for practical purposes probably through 1966. Further expansions of plant capacity, in the light of announced government policy, cannot be expected to materialize in the next 5 to 9 years. The purchase and stockpiling of crude ore by the A. E. C., in excess of existing or planned milling capacity, is unlikely to furnish a market for newly-developed mines, except perhaps on a very limited or "token" basis.

9393128

There is thus no true business incentive to develope substantial additional uranium ore reserves during the next few years, since such developments would only entail the locking up of capital years in advance of any possible return. In our own case, we are compelled to gear our exploration activities to a policy of providing for the systematic replenishment of ore supplies for our Bluewater Plant at a rate commensurate with existing ore reserves, market quotes, and corresponding mining and milling rates of output. We believe our situation in this regard is similar to that of other producers in New Mexico. We further believe that the social economy of this area will best be served by such a policy, rather than one predicated upon a philosophy of extremely rapid exploitation leading to early exhaustion of resources and consequent shutting down of plants and termination of jobs.

To return to the specific problem at hand, compliance with the literal terms of our 15 leases would result either in a very wasteful expenditure of money in a program unlikely to produce optimum technical results, over a term of years, or alternatively in a "crash" program of exploration for perhaps two or three years and possible premature abandonment of the properties. I hope these statements will be clear in view of the following facts:

1. From our knowledge of the geology of the Ambrosia District and neighboring areas, within which these leases are situated, we are convinced that uranium possibilities are essentially confined to various horizons of the Morrison formation, and that drilling depths necessary to completely penetrate the Morrison will vary between 900 or 1,000 feet and 2,600 feet, averaging about 1,800 feet.

2. Costs, assuming non-coring methods through the Dakota formation and coring through the Morrison, including related charges, will probably average $5.00 per foot or $9,000.00 per hole.

3. If one hole were drilled on each lease, the cost would be $56.02 per acre, whereas the lease commitment is $10.00 per acre per year.

4. If, because lack of immediate markets for ore and common business judgment can be said to justify only minimum expenditures until conditions permit the conduct of commercially productive operations, expenditures were made at the required rate of $10.00 per acre per year, the drilling of one hole would have to be spread over 5-1/2 years, which is, of course, a ridiculous proposition and one that would probably be physically impossible in any event, because of caving during the idle periods.

5. If, on the other hand, we decided to drill one hole on each lease each year, the cost of this work for 15 leases would be $135,000 per year as opposed to contract requirements of $24,121.30. If the leases were held through 1966 on this basis (9 years), the cost would mount to $1,215,000.00 irrespective of rentals and minimum royalties, which is a very large figure in relation to the speculative outlook for ore discovery.

6. If we held all of the leases for nine years at the minimum rate of expenditure, the exploration cost alone would be $217,091.70, which is not an unreasonable proposition if the work could be conducted intelligently such that enough favorable information could be gained from year to year to justify continuing the program. However, much of such an expenditure would be wasted, and non-productive, if work had to be done in equal amounts each year on each of 15 leases.

7. In any event, we expect and are prepared to expend in each year that we hold the ground a total sum equivalent to one year's work requirement for all the acreage retained; beyond this, we realize that we cannot expect to make even a one-hole test of each lease (and one hole may be far from enough) for a total outlay of less than $135,000.00

8. Apart from exploration work requirements of $10 per acre per year, the minimum royalty of $4 per acre per year, which becomes an obligation after the second year, would appear to be inconsistent with the existing economic climate in the uranium industry. Would it not be equitable to waive this royalty, or at least reduce it to a rental of $1.00 per acre per year, until there were a market for ore or until 1967, whichever date first occurred?

In view of the foregoing, we believe that certain modifications of terms are justifiable and could be worked out along lines that would be fair, equitable, and mutually advantageous in the long-range view to both the Indian lessors and to Anaconda. We suggest, and would like to pursue in detailed discussions with the Indian Service and the owners, an arrangement embodying the following primary considerations:

1. The 15 tracts to be unitized in one lease agreement, rahter than held under 15 separate agreements, with the 15 lessor parties or groups of parties participating equally.

2. Bonuses as paid to remain unaffected unless the Indian owners wish to distrubute them uniformly, which would be a question of concern only to them and to the Indian Service.

3. Rentals to be $1.00 per acre per year for the acreage retained under lease from year to year.

4. Anaconda to be permitted to drop such acreage, and tetain such acreage as it saw fit, from year to year after the first year.

5. Anaconda to expend $10.00 per year for each acre retained under lease from year to year, without qualification as to where or in what portion or portions of the unitized lease area the work wer performed.

6. Minimum royalties of $4.00 per acre per year (in addition to a base rental of $1.00 per acre per year) to accrue and become payable in the first year in which 1,000 tons or more of commercial ore was produced, or in the year 1967, whichever date first occurred; in the event of minor production incidental to exploration and development, amounting to less than 1,000 tons per year and prior to such date as defined above, the royalty schedule without minimum to apply.

7. Base royalty schedule to be as set forth in the existing leases.

We would appreciate your reaction tothe thoughts conveyed herewith, and stand ready to discuss this problem at any mutually convenient time. Since, under the terms of the existing leases, work must start on all of them within six months of the approval date, it would seem very desirable to pursue this matter without delay, if in your judgment anything can be done along these lines. Please address any further correspondence regarding this to our Manager, Mr. A. J. Fitch.

With all good wishes for a Happy New Year.

Sincerely yours,

/S/ J. B. Knaebel

J. B. Knaebel,
Assistant to Vice Presideat

JBK:fd
cc: Mr. Ted Hall, Gallup, N.M.
Mr. Dewey Dismuke, Gallup, N. M.
Mr. A. J. Fitch
Mr. R. D. Lynn